

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION BY THE PUBLIC	)	
SERVICE COMMISSION OF THE	)	CASE NO.
ENVIRONMENTAL SURCHARGE MECHANISM	)	2017-00072
OF KENTUCKY POWER COMPANY FOR THE	)	
SIX-MONTH BILLING PERIOD ENDING	)	
DECEMBER 31, 2016	)	

ORDER

On February 21, 2017, the Commission initiated a six-month review of Kentucky Power Company's ("Kentucky Power") environmental surcharge<sup>1</sup> as billed to customers for the six-month period July 1, 2016, to December 31, 2016.<sup>2</sup> Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the environmental surcharge. The Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharge collections with actual costs recoverable.

The Commission issued a procedural schedule on February 21, 2017, that provided for discovery, the filing of prepared testimony, and intervenor testimony. Kentucky Power filed prepared testimony and responded to two requests for information from Commission Staff. There were no intervention requests in this proceeding. On

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<sup>1</sup> Kentucky Power was authorized to implement an environmental surcharge in Case No. 1996-00489, *The Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Waste and By-Products* (Ky. PSC May 27, 1997).

<sup>2</sup> Kentucky Power's surcharge is billed on a two-month lag. Thus, surcharge billings from July 2016 through December 2016 are based on costs incurred from May 2016 through October 2016.

June 19, 2017, Kentucky Power filed a motion that this case be submitted for decision by the Commission based on the existing record. Because there are no intervenors in this case and a hearing is not necessary in the public interest, the Commission will adjudicate this case based on the evidence of record.

#### SURCHARGE ADJUSTMENT

In Case No. 2016-00336,<sup>3</sup> Kentucky Power identified two errors that affected expense months in the current review period and proposed adjustments to correct the errors. First, Kentucky Power failed to reflect monthly retirements of compliance equipment at its Rockport and Mitchell Generating Stations, which resulted in an over-recovery of \$225,754 during the review period.<sup>4</sup> Kentucky Power refunded this over-recovery in the October 2016 expense month. Second, a formulaic error produced a misallocation of the environmental surcharge revenue requirement between the residential and non-residential customer classes. Kentucky Power proposed to correct the misallocation by decreasing the residential revenue requirement and increasing the non-residential revenue requirement by \$134,403 per month for four months beginning with the November 2016 expense month.<sup>5</sup> However, this adjustment was omitted from the calculation of the environmental surcharge factor for the November 2016, December 2016, and January 2017 expense months and of the original filing for the February 2017

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<sup>3</sup> Case No. 2016-00336, *Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Period Ending June 30, 2016* (Ky. PSC Apr. 18, 2017).

<sup>4</sup> Direct Testimony of Amy J. Elliot ("Elliott Testimony") at 3.

<sup>5</sup> *Id.* at 4.

expense month.<sup>6</sup> Consequently, this adjustment will now be included in the February 2017 through May 2017 expense months.

During the review period, Kentucky Power included overstated expenses for the July 2016 and September 2016 expense months, which caused a total over-collection of \$405,065.<sup>7</sup> Kentucky Power included a \$405,065 adjustment to correct the over-collection in the February 2017 expense-month filing, which is outside of this review period.

Kentucky Power did not propose any additional over- or under-recovery for the review period.<sup>8</sup> Having reviewed the record, the Commission finds reasonable Kentucky Power's determination that it did not have any additional over- or under-recovery for the review period.

#### RATE OF RETURN

In previous environmental surcharge reviews, the Commission has been guided by its findings in Case No. 1996-00489 with respect to the determination of the weighted average cost of capital ("WACC") to be used prospectively in Kentucky Power's monthly environmental surcharge filings. However, the Settlement Agreement in Case No. 2014-00396<sup>9</sup> ("Settlement Agreement") now supersedes the findings in Case No. 1996-

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<sup>6</sup> Supplemental Testimony of Amy J. Elliott at 2 (filed Mar. 30, 2017).

<sup>7</sup> Elliott Testimony at 3. *See also* Kentucky Power's Response to Commission Staff's Second Request for Information, Items 1, Attachment 1, and 2.a. Due to other adjustments of \$381, the correct adjustment total should be \$404,684. Kentucky Power did not propose to collect the difference.

<sup>8</sup> Kentucky Power's Response to Commission Staff's First Request for Information, Item 1.

<sup>9</sup> Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief* (Ky. PSC June 22, 2015).

00489. The Settlement Agreement authorized a return on common equity of 10.25 percent for environmental surcharge purposes.<sup>10</sup> It also specified that Kentucky Power utilize a WACC of 7.34 percent and a gross revenue conversion factor of 1.616424 to be applied to the return on equity, which would remain constant until changed by the Commission in Kentucky Power's next base rate case.<sup>11</sup> The Settlement Agreement also authorized a gross-up factor of 1.004977 to be applied to the long- and short-term debt and accounts receivable financing weighted average cost percentages.<sup>12</sup> Together, these factors produce an overall rate of return of 10.128 percent. Therefore, the Commission finds that the combination of these components, which produces an overall grossed-up rate of return of 10.128 percent, should be used in all monthly environmental surcharge filings subsequent to the date of this Order.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's request to submit this case for a decision on the existing evidence of record without a hearing is granted.
2. The environmental surcharge amounts determined by Kentucky Power for the review period July 1, 2016, through December 31, 2016, are just and reasonable.
3. Kentucky Power's determination that it had no additional over- or under-recovery for the review period is approved.
4. Kentucky Power shall use a weighted average cost of capital of 7.34 percent, tax gross-up factors of 1.616424 and 1.004977, a return on equity rate of 10.25

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<sup>10</sup> Case No. 2014-00396, *Kentucky Power*, Settlement Agreement, numbered paragraph 2 at 5.

<sup>11</sup> *Id.*, numbered paragraph 3 at 5-6.

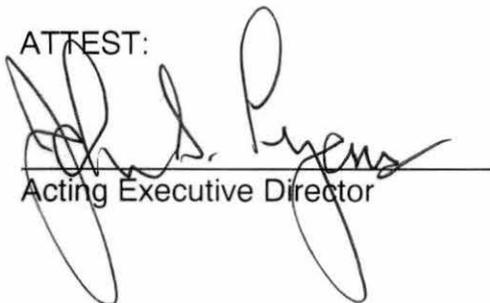
<sup>12</sup> *Id.*, Exhibit 2.

percent, and an overall grossed-up return of 10.128 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

By the Commission

ENTERED  
· JUL 05 2017  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:



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